

BEAVER ISLAND DISTRICT LIBRARY

BEAVER ISLAND, MICHIGAN

FINANCIAL STATEMENTS

AND OTHER FINANCIAL INFORMATION

for the year ended March 31, 2008

MASON & KAMMERMANN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CHARLEVOIX, MICHIGAN

Beaver Island District Library

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MASON & KAMMERMANN, P.C.
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INDEPENDENT AUDITOR'S REPORT

June 25, 2008

Board of Trustees
Beaver Island District Library
Beaver Island, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of Beaver Island District Library, as of and for the year ended March 31, 2008, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Beaver Island District Library as of March 31, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink, appearing to read "Mason & Kammermann PC", with a stylized flourish at the end.

Mason & Kammermann, P.C.
Certified Public Accountants

Beaver Island District Library

Management's Discussion and Analysis June 25, 2008

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Beaver Island District Library's basic financial statements. The Library's basic financial statements are comprised of three components: government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains other supplementary information, in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Library's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Library's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the Library's financial position is improving or deteriorating.

The statement of activities presents information showing how the Library's net assets changed during the most recent fiscal year on the accrual basis of accounting. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both government-wide financial statements distinguish functions of the entity that are principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the Library include a single program function, recreation and culture.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Beaver Island District Library, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund of the Library is classified as a governmental fund.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Beaver Island District Library

Management's Discussion and Analysis June 25, 2008

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Summary of Net Assets

The following schedule summarizes the net assets at March 31, 2008 and 2006:

<u>Assets</u>		
	<u>2008</u>	<u>2006</u>
Assets		
Current Assets	\$ 132,227	\$ 118,682
Capital Assets, net of accumulated depreciation	<u>72,781</u>	<u>37,260</u>
Total Current Assets	<u>205,008</u>	<u>155,942</u>
 <u>Liabilities and Net Assets</u>		
Liabilities		
Accrued Payroll Taxes	2,012	1,599
Net Assets		
Invested in Capital Assets	72,781	37,260
Unrestricted	<u>130,215</u>	<u>117,083</u>
Total Net Assets	<u>\$ 202,996</u>	<u>\$ 154,343</u>

Analysis of Financial Position

During the fiscal year ended March 31, 2008 the Library's net assets increased by \$12,851. The Library has \$130,215 of unrestricted net assets, which could be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

Beaver Island District Library

Management's Discussion and Analysis June 25, 2008

Depreciation Expense

GASB 34 requires libraries to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended March 31, 2008, \$21,566 was recorded for depreciation expense.

Capital Outlay Acquisitions

For the fiscal year ended March 31, 2008, \$43,007 of expenditures were capitalized and recorded as assets of the Library. These additions to the Library's capital assets will be depreciated over time as explained above.

The net effect of the new capital assets and the current year's depreciation is an increase to capital assets in the amount of \$21,441 for the fiscal year ended March 31, 2008.

Results of Operations

For the fiscal year ended March 31, 2008 and 2006, the results of operations, as reported in the Statement of Activities, were:

	2008	% of Total	2006	% of Total
General Revenues				
Property Taxes	\$ 96,326	80.7%	\$ 82,629	90.2%
Investment Earnings	1,024	1.0%	908	1.0%
Penal Fines	3,638	3.1%	3,053	3.3%
State Aid	217	0.2%	479	0.6%
Other	3,556	3.0%	2,779	3.0%
Total General Revenues	104,761	88.0%	89,848	98.1%
Program Revenues				
Charges for Services	1,510	1.2%	1,059	1.2%
Operating Grants & Contributions	12,985	10.8%	670	0.7%
Total Revenues	119,256	100.0%	91,577	100.0%
Expenses				
Recreation and Culture	106,405	100.0%	78,924	100.0%
Changes in Net Assets	\$ 12,851		\$ 12,653	

Beaver Island District Library

Management's Discussion and Analysis June 25, 2008

Significant revenues and expenses are discussed in the segments below:

1. Property Taxes

The voters of Peaine and St. James Townships have approved the levy of .9003 mills for property taxes to fund the Library's operations. For the year ended March 31, 2008, this resulted in \$96,325 for taxes assessed for the Library's operations.

2. Donations

The Library received donations during the year, many of which were allocated for capital outlay. For the fiscal year ended March 31, 2008, donations accounted for \$12,985.

3. Penal Fines

The Library collected \$3,638 in penal fines from Charlevoix County during the year.

Expenditures

A comparison of expenditures reported on the Statement of Activities for March 31, 2008 and 2006 is shown below:

Expenditures	2008	% of Total	2006	% of Total
Salaries and Wages	\$ 53,512	41.9%	\$ 43,738	48.7%
Payroll Taxes	5,253	4.1%	4,062	4.5%
Utilities	6,482	5.1%	6,828	7.6%
Insurance	885	0.7%	834	0.9%
Repairs and Maintenance	6,569	5.1%	3,978	4.4%
Library Books	6,073	4.7%	7,686	8.6%
Subscriptions	2,012	1.6%	1,675	1.9%
Office Supplies	2,782	2.2%	2,439	2.7%
Travel	891	0.7%	730	0.8%
Dues and Fees	70	0.0%	290	0.3%
Miscellaneous	6,383	5.0%	2,718	3.0%
Capital Outlay	36,934	28.9%	14,869	16.6%
Total Expenditures	\$ 127,846	100.0%	\$ 89,847	100.0%

Beaver Island District Library

Management's Discussion and Analysis June 25, 2008

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the Board approve the original budget for the upcoming fiscal year prior to its starting on April 1. Any amendments made to the operating budget must be approved by the Board prior to the close of the year on March 31.

The following schedule shows a comparison of the original fund budget, the final amended general fund budget and actual totals from operations:

	Original Budget	Final Budget	Actual	Variance With Final Budget
Total Revenues	\$ 95,123	\$ 95,123	\$ 119,256	\$ 24,133
Total Expenditures	102,608	102,608	127,846	25,238
Net Change in Fund Balance	<u>\$ (7,485)</u>	<u>\$ (7,485)</u>	<u>\$ (8,590)</u>	<u>\$ (1,105)</u>

There was no change in the Original Budget to the Final Budget.

Capital Assets

At March 31, 2008, the Library had \$206,261 in capital assets, including equipment and books. Depreciation expense for the year amounted to \$21,566 bringing the accumulated depreciation to \$133,480 as of March 31, 2008.

Requests for Information

This financial report is designed to provide a general overview of the Library's finances for all those with an interest in the Library's finances. If you have questions about this report, please contact Beaver Island District Library, 26400 Donegal Bay Road, Beaver Island, MI 49782.

Beaver Island District Library

Statement of Net Assets March 31, 2008

<u>Assets</u>	<u>Governmental Activities</u>
Current Assets:	
Cash and cash equivalents	\$ 123,219
Due from other governmental units	<u>9,008</u>
Total current assets	<u>132,227</u>
Noncurrent Assets:	
Capital assets	206,261
Less: Accumulated depreciation	<u>(133,480)</u>
Total noncurrent assets	<u>72,781</u>
Total assets	205,008
 <u>Liabilities and Net Assets</u>	
Current Liabilities,	
Accrued payroll taxes	<u>2,012</u>
 Net Assets:	
Invested in capital assets	72,781
Unrestricted	<u>130,215</u>
Total net assets	<u><u>\$ 202,996</u></u>

The accompanying notes are a part of the financial statements.

Beaver Island District Library

Statement of Activities For The Year Ended March 31, 2008

	<u>Expenses</u>
Recreation and Culture:	
Salaries and wages	\$ 53,512
Payroll taxes	5,253
Utilities and telephone	6,482
Insurance	885
Repairs and maintenance	6,569
Subscriptions	2,012
Office supplies	2,782
Travel	891
Dues and fees	70
Miscellaneous	6,383
Depreciation	<u>21,566</u>
Total program expenses	106,405
Program Revenues:	
Charges for services	1,510
Operating grants and contributions	<u>12,985</u>
Net program expenses	(91,910)
General Revenues	
Property taxes	96,326
Investment earnings	1,024
Penal fines	3,638
State aid	217
Other	<u>3,556</u>
Total general revenues	<u>104,761</u>
Change in Net Assets	12,851
Net Assets - April 1, 2007	<u>190,145</u>
Net Assets - March 31, 2008	<u><u>\$ 202,996</u></u>

The accompanying notes are a part of the financial statements.

Beaver Island District Library

Governmental Funds Balance Sheet March 31, 2008

<u>Assets</u>	<u>General Fund</u>
Cash and cash equivalents	\$ 123,219
Due from other governmental units	<u>9,008</u>
Total assets	<u><u>\$ 132,227</u></u>
 <u>Liabilities and Fund Equity</u>	
Liabilities, Accrued payroll taxes	\$ 2,012
Fund equity, Unrestricted	<u>130,215</u>
Total liabilities & fund equity	<u><u>\$ 132,227</u></u>

The accompanying notes are a part of the financial statements.

Beaver Island District Library

Governmental Funds Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets March 31, 2008

Total Governmental Fund Balance	\$ 130,215
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets and unamortized expenses used in governmental activities are not financial resources and are not reported in the governmental funds balance sheet.

Cost of capital assets	\$ 206,261	
Accumulated depreciation	<u>(133,480)</u>	
		<u>72,781</u>

Net Assets of Governmental Activities	<u><u>\$ 202,996</u></u>
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The accompanying notes are a part of the financial statements.

Beaver Island District Library

Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance For The Year Ended March 31, 2008

	General Fund
Revenues:	
Local Sources	
Property taxes	\$ 96,326
Earnings on investments and deposits	1,024
Book sales	1,510
Donations	12,985
Miscellaneous	3,556
Intermediate Sources	
Penal fines	3,638
State Sources	
State of Michigan	217
Total revenues	<u>119,256</u>
Expenditures:	
Salaries and wages	53,512
Payroll taxes	5,253
Utilities and telephone	6,482
Insurance	885
Repairs and maintenance	6,569
Library books	6,073
Subscriptions	2,012
Office supplies	2,782
Travel	891
Dues and fees	70
Miscellaneous	6,383
Capital outlay	36,934
Total expenditures	<u>127,846</u>
Net change in fund balance	(8,590)
Fund Balance - April 1, 2007	<u>138,805</u>
Fund Balance - March 31, 2008	<u><u>\$ 130,215</u></u>

The accompanying notes are a part of the financial statements.

Beaver Island District Library

Governmental Funds Reconciliation of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities For The Year Ended March 31, 2008

Net Change in Fund Balance - Total Governmental Funds	\$ (8,590)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays and intangible assets as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation or amortization.

Depreciation expense	(21,566)
Capital outlay and library books	<u>43,007</u>
Changes in Net Assets - Governmental Activities	<u>\$ 12,851</u>

The accompanying notes are a part of the financial statements.

Beaver Island District Library

Notes To Financial Statements For Year Ended March 31, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Beaver Island District Library was established in 1986 under Act 164 of 1955, to provide library services primarily to residents of Peaine and St. James Townships. It is primarily funded by tax revenues from these governmental units.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the activities of the Library. Governmental activities are supported by taxes and intergovernmental revenues and are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Library as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to financial statements presented in the previous financial reporting model.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the Library are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

Beaver Island District Library

Notes To Financial Statements For Year Ended March 31, 2008

Accrual Method

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 90 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the Library receives cash.

The Library reports the following major governmental fund:

The General Fund is the primary operating fund of the Library. It is used to account for all financial resources of the Library.

D. Assets, Liabilities and Equity

1. Cash and Cash Equivalents

Cash and cash equivalents are comprised of the amount of funds in bank accounts and certificates of deposit. Certificates of deposit are stated at cost or amortized cost, which approximates market.

Beaver Island District Library

Notes To Financial Statements For Year Ended March 31, 2008

2. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

The land and building used for Library operations have been donated for Library services and have been deeded to Peaine and St. James Townships.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Building Improvements	25 years
Books	7 years
Equipment	5 years

The Library's capitalization policy is to capitalize individual amounts exceeding \$500 and all books.

3. Fund Equity

Reservations of fund balance represent amounts that are not available for appropriation or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

4. Use of Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expense during the reporting period. Actual results could differ from those estimates.

Beaver Island District Library

Notes To Financial Statements For Year Ended March 31, 2008

5. Long-Term Obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the statement of net assets. As of March 31, 2008, the Library has no long-term debt outstanding.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

An operating budget is prepared annually. The operating budget includes proposed expenditures and the means of financing them.

The budget is approved by the Library Board prior to the start of the fiscal year that it covers.

All transfers of budget amounts between accounts within the General Fund must be approved by the Library Board.

The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted, or as amended by the Library board. The budget was not amended during the year.

Budget appropriations lapse at the end of the fiscal year.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) lapse at year-end and do not constitute expenditures or liabilities because the commitments will generally be reappropriated and honored during the subsequent year.

Excess of Expenditures over Appropriations in Budgeted Funds

During the year, the Library incurred expenditures in excess of the amount appropriated.

Fund/Function	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Recreation and culture:	<u>\$ 102,608</u>	<u>\$ 102,608</u>	<u>\$ 127,846</u>	<u>\$ 25,238</u>

Beaver Island District Library

Notes To Financial Statements For Year Ended March 31, 2008

Accumulated Fund Deficits

The Library had no funds with an accumulated fund balance/retained earnings deficit at March 31, 2008.

III. DETAILED NOTES ON GENERAL FUND AND ACCOUNT GROUP

A. Deposits and Investments

The cash in bank, including the certificates of deposit, are on deposit with local federally insured financial institutions.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Library's cash deposits are as follows:

Insured	\$ 100,000
Uninsured	<u>23,219</u>
	<u><u>\$ 123,219</u></u>

B. Capital Assets

A summary of changes in the Library's capital assets follows:

	Balance of April 1, 2007	Additions	Deletions	Balance of March 31, 2008
Capital assets being depreciated:				
Building improvements	\$ -	\$ 17,963	\$ -	\$ 17,963
Equipment	83,801	18,971	-	102,772
Book collection	<u>79,453</u>	<u>6,073</u>	<u>-</u>	<u>85,526</u>
Total capital assets being depreciated	163,254	43,007	-	206,261
Less: accumulated depreciation	<u>(111,914)</u>	<u>(21,566)</u>	<u>-</u>	<u>(133,480)</u>
Total Net Capital Assets	<u><u>\$ 51,340</u></u>	<u><u>\$ 21,441</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 72,781</u></u>

Depreciation for the fiscal year ended March 31, 2008 amounted to \$21,566.

Beaver Island District Library

Notes To Financial Statements For Year Ended March 31, 2008

C. Property Taxes

Property taxes are levied on July first and December first and are payable by September fourteenth and February fourteenth. Property tax revenues are recognized when levied.

The Library is supported by the taxpayers of Peaine and St. James Townships and has approved the following taxes to finance the Library's operations:

<u>DISTRICT</u>	<u>MILLS</u>	<u>TAXABLE VALUATION</u>
Peaine Township	.9000	\$ 62,799,779
St. James Township	.9000	\$ 43,351,215

IV. OTHER INFORMATION

A. Risk Management

The Library participates in the Michigan Municipal League Insurance Pool through its association with St. James Township to provide workers' compensation coverage and general liability and property insurance. The Library contributed \$885 to the fund for this insurance coverage. There were no significant reductions in insurance coverage from the prior year.

Beaver Island District Library

Statement of Revenues, Expenditures and Changes in Fund Balance Budgetary Comparison - General Fund For The Year Ended March 31, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Local Sources				
Property taxes	\$ 89,098	\$ 89,098	\$ 96,326	\$ 7,228
Earnings on investments and deposits	875	875	1,024	149
Donations	1,000	1,000	12,985	11,985
Book sales	-	-	1,510	1,510
Miscellaneous	-	-	3,556	3,556
Intermediate Sources				
Penal fines	3,500	3,500	3,638	138
State Sources				
State of Michigan	650	650	217	(433)
Total revenues	95,123	95,123	119,256	24,133
Expenditures:				
Salaries and wages	48,000	48,000	53,512	5,512
Payroll taxes	3,200	3,200	5,253	2,053
Utilities and telephone	9,000	9,000	6,482	(2,518)
Insurance	900	900	885	(15)
Repairs and maintenance	4,000	4,000	6,569	2,569
Library Books	9,000	9,000	6,073	(2,927)
Subscriptions	1,800	1,800	2,012	212
Office supplies	2,500	2,500	2,782	282
Travel	1,000	1,000	891	(109)
Dues and fees	-	-	70	70
Miscellaneous	4,000	4,000	6,383	2,383
Capital outlay	19,208	19,208	36,934	17,726
Total expenditures	102,608	102,608	127,846	25,238
Excess of revenue over expenditures	(7,485)	(7,485)	(8,590)	(1,105)
Fund Balance - April 1, 2007	123,804	123,804	138,805	15,001
Fund Balance - March 31, 2008	<u>\$ 116,319</u>	<u>\$ 116,319</u>	<u>\$ 130,215</u>	<u>\$ 13,896</u>

MASON & KAMMERMANN, P.C.
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June 25, 2008

To the Library Board
Beaver Island District Library
Beaver Island, Michigan

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Beaver Island District Library as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Beaver Island District Library's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses:

Segregation of Duties

A properly designed system of internal control segregates the accounting responsibilities from employees who have access to physical assets such as cash, investments and payroll, from authorization and approval of transactions and account reconciliations. The small size of the administrative staff precludes a complete segregation of duties resulting in more than a remote risk that material misstatements could occur and not be detected during normal activities.

Preparation of Financial Statements

During the course of our audit, it was noted employees and/or management have limited technical expertise to prepare the Library's financial statements and notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. The preparation of the Library's financial statements and notes in accordance with accounting principles generally accepted in the United States of America is the responsibility of management. Management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows, including the notes to the financial statements, in conforming with accounting principles generally accepted in the United States of America.

The Library, as is common with smaller entities, has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the Library's ability to prepare financial statements in accordance with accounting principles generally accepted in the United States of America is based, in part, on its reliance on its external auditors, who cannot by definition be considered part of the government's internal controls.

The result of this condition is that the Library lacks internal controls over the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and instead relies, in part, on its external auditors for assistance with this task.

Budgeting

Public Act 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended March 31, 2008, St. James incurred expenditures that exceeded the amount appropriated for the General Fund, as shown in the body of the financial statements.

We suggest that the Board on a periodic basis, review appropriations as compared to actual expenditures and amend the budget as necessary, prior to incurring the expenditures to avoid incurring expenditures in excess of appropriations.

Beaver Island District Library
June 25, 2008
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This communication is intended solely for the information and use of management, the Board of Trustees, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in black ink that reads "Mason & Kammermann PC". The signature is written in a cursive, flowing style.

Mason & Kammermann, P.C.
Certified Public Accountants

MASON & KAMMERMANN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

HUGH E. MASON
VELDA K. KAMMERMANN

110 Park Avenue
Charlevoix, Michigan 49720
Telephone (231) 547-4911
Facsimile (231) 547-5911

June 25, 2008

To the Board of Trustees
Beaver Island District Library

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Beaver Island District Library for the year ended March 31, 2008, and have issued our report thereon June 25, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

Our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Beaver Island District Library are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the Library during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial users.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management with Management

We have requested certain representations from management that are included in the management representation letter dated June 25, 2008.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

Auditing standards require us to report to you significant audit findings or issues. Following are the significant findings we noted during our audit:

- There is a lack of segregation of duties in the accounting function due to the limited number of accounting personnel. This condition is generally inherent in organizations the size of Beaver Island District Library where corrective action is not practical, and to the extent possible, duties are allocated between accounting personnel to mitigate the risk of material asset misappropriation.
- Beaver Island District Library does not have procedures in place to prepare financial statements in accordance with U.S. generally accepted accounting principals, and to present required financial statement disclosures. However, small organizations with limited resources and personnel inherently have difficulty in establishing and maintaining effective internal accounting controls related to the preparation and review of the formal year-end financial statements.

Additionally we have presented other matters for your consideration in the same letter dated June 27, 2008.

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Library's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Trustees and management of Beaver Island District Library and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Mason & Kammermann PC".

Mason & Kammermann, P.C.
Certified Public Accountants